GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:653
ANSWERED ON:25.02.2009
MAINTAINING FINANCIAL STABILITY
Chakrabortty Shri Swadesh

Will the Minister of FINANCE be pleased to state:

(a) whether the RBI in its recent report has observed that there could be some downside risks in certain areas that might impinge on stability in the near future; and

(b) if so, the details thereof?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b) In the Report on Trend and Progress of Banking in India 2007-08 released on 17.12.2008, the Reserve Bank of India (RBI) indicated that while the financial system as a whole is quite robust, there is a need to be aware of certain downside risks in certain areas, which could have a bearing on the stability of the financial system in the near future, such as adverse international developments,moderation in growth and asset prices.The adverse global developments have led to moderation of growth in industrial and services sectors in the first half of 2008-09. The Report suggests that the banking sector in India continues to be healthy, sound and resilient. The profitability of the banking sector, which has shown remarkable resilience in the last few years,improved further during the year.The performance indicators such as operational efficiency, asset quality and soundness indicators of the Indian banking system currently compare well with the global standards.Although non-performing loans in absolute terms increased during the year, showing a reversal of the trend observed during the last few years,the gross non-performing asset (NPA) ratio (gross NPAs as percentage of gross advances) continued to decline.As per assessment of RBI in its Report, Financial stability in India has been achieved through perseverance of prudential policies which prevent institutions from excessive risk taking, and financial markets from becoming extremely volatile and turbulent. The policy stance of RBI is aimed at assuring financial stability, while maintaining the growth momentum at reasonable levels and giving a high priority to price stability. The Report indicates that RBI has kept a close vigil on the entire financial system to prevent pressures from building up in the financial markets,including liquidity enhancing measures to ease liquidity pressures. The Report and the details of measures taken by RBI to ensure uninterrupted and adequate credit to the productive sectors of the economy are available at RBI website www.rbi.org.in. Government of India has also announced two stimulus packages for the economy on 07.12.2008 and 02.01.2009,details of which are available at its website www.pib.nic.in.